RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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December 23, 1976 **LETTER 684**

Dec.10, DJIA 973.15; PTI 981; A-D Ratio -20.36
Dec.17, DJIA 979.09; PTI 989; A-D Ratio -20.13

BACK: I got back from NYC and the *Barron's* panel-meeting only five working days ago (it took me the weekend to thaw out). I just didn't have the time I ordinarily need to put this report together. I tried to get everything in, but you'll have to excuse the repetitions and disjointed style (this just ain't going to read as great literature). Ah, and before I forget, I want to wish all readers the very best for the New Year. May the powers above watch over us (even including those poor souls of us who have to struggle with the markets).

SUNDRY ITEMS ON MY MIND: Since November 15 the market (as measured by the *Advance-Decline Ratio* on the NYSE) has advanced on 19 out of 24 sessions or almost 80% of the time. This is heavy weighting on the upside, probably ***too heavy***. I would say that some correcting is due, since no matter how good things become on Wall Street, it's never a totally one-way street.

The *Bonds* and *Utilities* have been going uninterruptedly "up" ever since October. They should be ready to back off a bit too. My 13-day moving average of the "*ticks*" (see Letter 683, page 3) hit an unbelievable total of +4380 last week. This represents real strength and accumulation on the NYSE, but it also suggests that the market is ***overbought*** and probably due for a breather. I would now expect the tick index to back off a bit.

The *Transports* rallied to a new high last week while *Industrials* did not. From a Dow Theory standpoint, this could mean trouble but I'm of the opinion that any "trouble" will be minimal and short-lived.

My statistics on NYSE common stocks (preferred's excluded) show that over the past couple of weeks better than 16% of all Big Board commons hit *new highs* (new highs for the preceding 52 weeks). That's good action, strong action. *"Will-Go,"* the indicator which shows comparisons of Dow yields to bond yields, has risen for a fantastic 22 consecutive weeks. Since Will-Go tends to be a lead indicator for the market, this action is bullish for stocks right through the first quarter of 1977.

I'm not an avid follower of the "*General Motors* theory," but I certainly don't see anything bearish about last week's new high for the nation's greatest manufacturing company. Nor do I see anything bearish about the new 10-year high in America's greatest utility-manufacturing entity, *Am. Tel & Tel.*

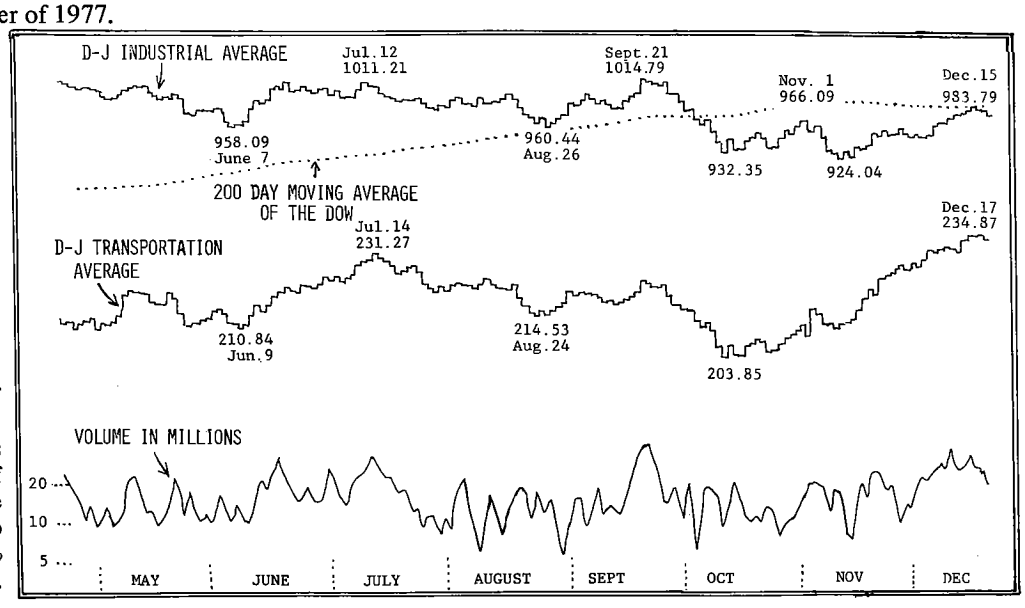
Frankly, the recent cave-in on the *British market* disturbed me more than any other phenomenon of 1976 (see Letter 675). The 1976 smash took the Financial Times's Index from 420.8 to a low of 265.3 (Oct. 27). Last week we saw the British market recover to 339.5, just a hair short of a 50% recoup of all the 1976 losses. That's extremely hopeful action. I'm now almost certain that the British market *saw its low* at 265.2, and I'm just as certain that the pound sterling has seen its low (at least for the next year or so). Furthermore, in the face of the whopping 40% drop in the London market during 1976, I think the Dow held unbelievably well, a show of outstanding US strength. (By the way, any London closing above 343 would be above the halfway level, a very bullish indication under the 50% Principle).

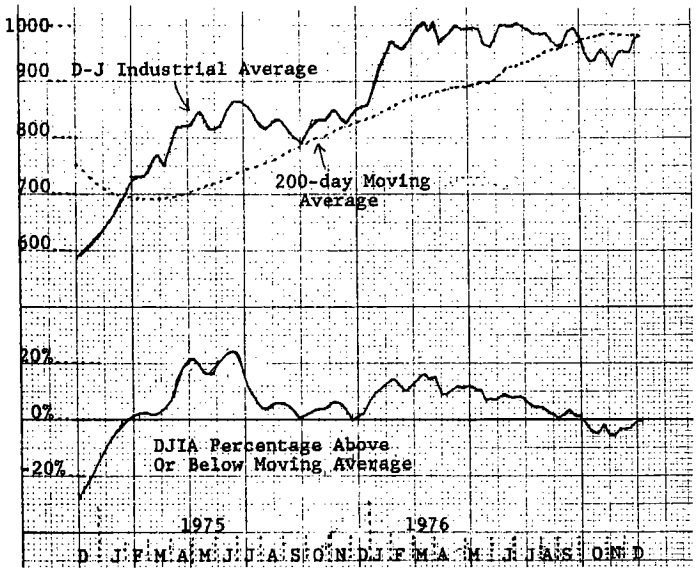
Most major market tops of the past 40 years have come with preceding or accompanying restrictions on the part of the Federal Reserve Board. So far, we can say that **the Fed is not even thinking in terms of restrictions,** quite the opposite. A month ago the Fed dropped the member bank discount rate from 5½ % to 5¼%. Last week the Fed lowered the reserve requirements for the member banks. These changes may not have any great effect on the market, but they do show us that the Fed is thinking along the "easier money" route. And that constitutes a continuing constructive background for Wall Street.

THE MARKET: In the last Letter I suggested that we keep our eyes on the 966.09 level of the Dow. This was the preceding Dow peak, and the 966.09 point represented the only barrier this side of the bull market high of 1014.79 (see chart below). That barrier was not fated to last long. On December 9 the Industrial Average pushed above the 966.09 mark, thereby putting on its best performance in three months.

On December 14 the D-J Transportation Average closed at 232.85, a new high for the current bull market. This immediately presented the picture of a non-confirmation, the Transports being in new high territory without confirmation by the Industrials. I pointed to this possibility in the last Letter, but I also wrote that ***"We have to give the primary trend every benefit of the doubt..... In the majority of cases, a penetration by one Average IN THE PRIMARY DIRECTION is ultimately confirmed by the laggard Average."***

I still hold the same optimistic view, and I feel it would now be wise to give the Industrials every chance to gather strength and





(in their own good time) make the push which will (hopefully) take them above 1014.79. Keeping a calm head during a bull market's second phase is always a difficult feat, and in this news-oriented, scare-headline era, it is doubly difficult.

Nevertheless, I count a number of plus factors for the Industrial Average at this time, all of which suggest that the bull is very much in command. First, the short interest in the 30 D-J Industrial stocks in November jumped 32% over October, an astounding rise. When the shorts build up within a primary bull trend, it is a sign of technical strength, an indication that sentiment is rising AGAINST THE PREVAILING TIDAL TREND. That anti-tidal sentiment is almost always WRONG.

Next, I want to talk about the relationship of the Dow and its own 200-day Moving Average (MA). I consider the 200-day MA to represent the average level of "big investment sentiment" over the preceding six to seven months. Therefore, major crossings by the Dow above or below its own 200-day MA represent important changes in investment psychology (I say "investment" because the Dow stocks tend to be owned by serious, investment money.)

On December 15 the Dow pushed above its 200-day moving average (see chart on this page). The moving average now stands at 981. The Dow has been holding below its 200-day MA for almost three months, and it has been my experience that such interludes during bull markets (1) are brought on by periods of temporary pessimism and accompanying adverse news, and (2) usually represent advantageous "buy spots."

It is not unusual to see the Dow sink temporarily below its 200-day MA during the second phase of a bull market. Such action, in fact, occurred on three separate occasions during the second phase of the 1949-66 bull market. Since any important decline during a bull market must, by definition, represent a period in which the primary bull trend is being held back, I find it interesting to note the **length of time** during which the Dow is below its MA. As a rule, the **longer the period below the 200-day MA**, the more powerful the ultimate rise to follow. The three months which make up the current "below the MA" action of the Dow constitute a fairly lengthy stay, and consequently I would expect a goodly advance when the Dow finally gathers the steam to push out of this area.

Since the 200-day MA of the Dow now stands at 881 (statistics from the *M/G Financial's* computerized section), I would consider it highly bullish when (somewhere ahead) the Dow rallies above 981, **then holds stubbornly and persistently above that level.** Once the 981 level is clearly bettered, I would expect a new and irregular push by the Dow, first above the 1000 area and then above the bull market high of 1014.79.

With it all, I want subscribers to remember that the Dow is now deep in the "war zone," the greatest zone of resistance in the history of the stock market. The 900 to 1050 area has halted and then turned back every advance by the Dow of the past ten years. Today, thousands of odd lotters, traders and investors are still only too willing to "give 'em back" or simply to sell and "get even." For ten years sellers in this zone have been correct, and one cannot really blame them for selling again.

But Wall Street is a cold and unemotional place, and it wouldn't shed a tear for the biggest financial mistake ever made by mortal man. In Wall Street there are only two possibilities: you're right or you're wrong. This bull market is still quite young (two years old), and it is still in its second psychological phase. It might be well to realize that **no young** bull market has ever pushed into the 1000 area before. The 1966 push into Dow 1000 occurred during a dying bull market, one that was 17 years old. All the other attacks on the 1000 zone occurred during inflation-hyped rallies in a primary bear market (1968 and 1973).

The current bull market has backed and filled, waffled and churned ever since last February. Even the optimists are getting impatient. The "market timers" are about exhausted, the cycle boys have had their cycles handed back to them. And as far as I am concerned, it is all to the good. The bull is still healthy, and he likes to make his move when the crowd least expects it, when they are least prepared for it. So let's just relax—and watch the show.

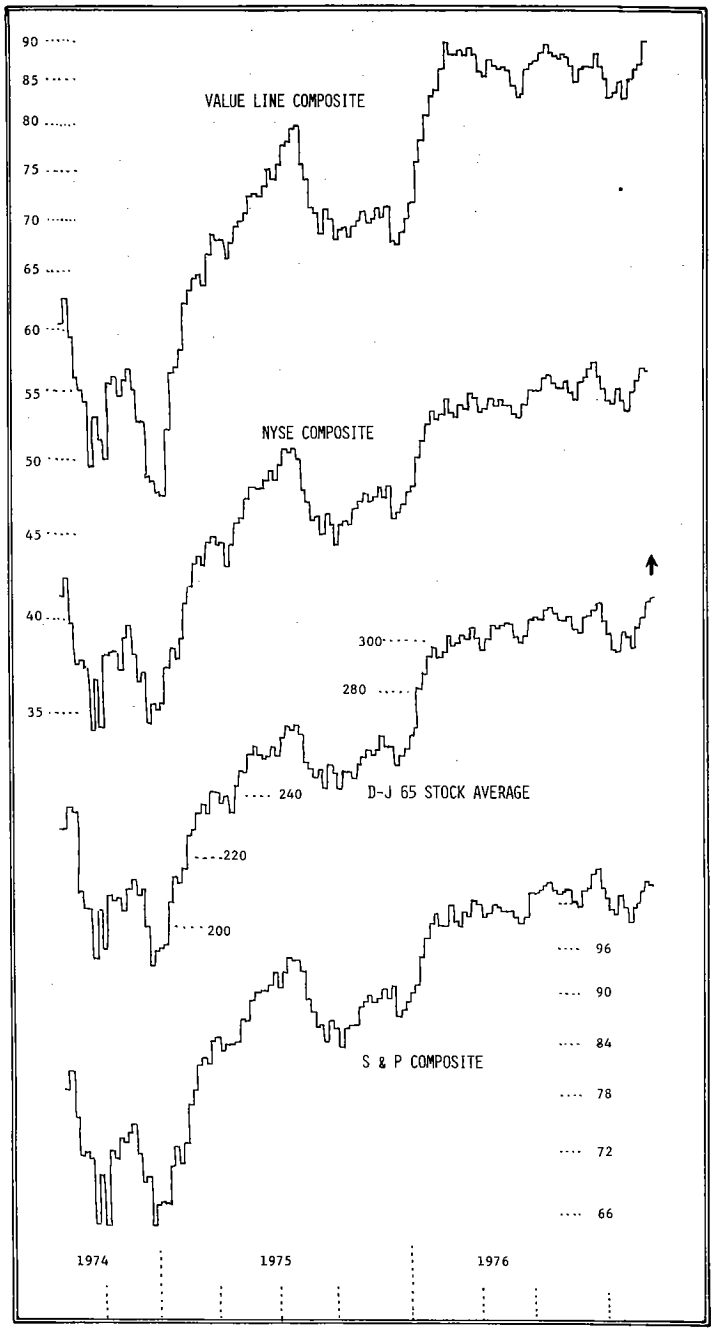
My own guess is that 1977 is going to see a lot of action on the upside. The hints are there for us to see, and it is one of these hints that I want to discuss now.

BULLISH PERFORMANCE: On December 14 Dow Jones's Composite Average, the well-known D-J 65, advanced to a new bull market high of 318.10 (see page 3 chart). Thus, the first of four well-known and widely followed composite Averages has had its say. I consider this primary penetration to be most significant and here is why. The composite Averages are all broad measures of price. The D-J 65 Stock Average is made up of the 30 D-J Industrials, the 20 D-J Transports and the 15 D-J Utilities. When this composite, following a correction or an extended consolidation, pushes to a new high it is telling us something.

"All right, Russell," you ask, "what is doing, and what's it telling us?" My answer is that it is doing something that simply does not occur in a bear market. The action of the D-J 65 Average (in moving to a new high) is telling the bears that they are just plain wrong, it is telling all the short sellers that they are in the "big squeeze," and it is telling the bulls that the first of the big composite Averages has re-confirmed the primary bull trend.

Now it is true that from the standpoint of orthodox Dow Theory, the primary trend can only be re-confirmed as bullish when both the D-J Industrials and Transports advance to new bull market highs (Transports have been doing just that but Industrials have still not bettered their preceding bull peak of 1014.79). Nevertheless, if you study the page 3 chart you will notice that the four composites have been moving sideways during all of 1976. Over the same period the news of the day has actually been conducive to lower prices (if not a downright collapse). We have had devaluations, monetary chaos, Mid-East wars, a world business slowdown, a smash in the British stock market, a US Presidential election, OPEC fears, the spector of our largest city going bankrupt, you name it and we have faced it.

But with it all, the composite Averages, those cross-section measures of the entire market, have held like rocks of granite. And then, as late as December 14 (and again on Dec. 15) the D-J 65 Stock Average pushed like some stoic Hercules to a new bull



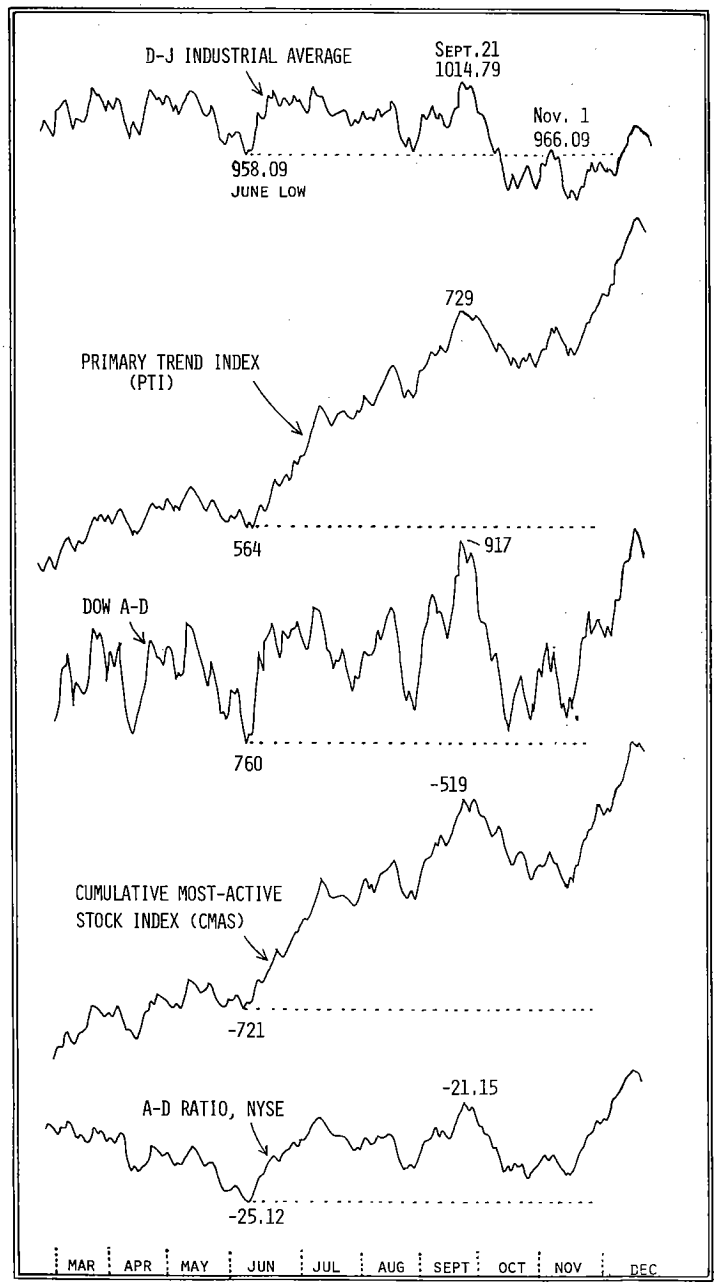
market high. Is this the kind of action one might expect if the nation were caught in the grip of a primary bear market? I really don't think so. Remember, ***time works in favor of the prevailing primary trend.*** Values move (through time) in the direction of the prevailing primary trend. After a year of sideways movement, we can certainly expect that the Averages will tend to move in the direction of the major trend. Thus, the D-J 65 gave us an important signal by advancing to a new bull market high.

And what of the bears, what of the pessimists who have been waiting impatiently for the stock market to roll over and crumble under the weight of all the "terrible news?" I would think that any bear worth his salt would take the new high on the D-J 65 as a warning, as a sign that he is on the wrong side of the primary trend. A little child may build his sand castle in the face of the oncoming ocean tide. But even a five-year old knows that when those waves get closer and the first whopper washes over the top of his sand castle, then it's time to step back. The new high in the D-J 65 is, I believe, telling the bears the same thing.

Fight the tide if you will, rant against the market if you wish, but I'll say it once more, "*This is a primary bull market and a powerful one. It has advanced the Dow 76% and it has already advanced the Transports and Utilities 85%. This bull market is dealing with forces as yet unknown and with coming events which we mere investors are not yet able to comprehend. I've heard a good many of the bear arguments, and I personally know many of the nation's leading bears. I know their thinking, and they know mine. And I'll tell you a little secret: the market couldn't care less about either of us or what we say. The die is cast, and tidal force is coming in. History alone will be the judge.*"

BREADTH: I want to review the unusual picture portrayed by the four breadth indices as shown on the chart (daily entries). The *Primary Trend Index* (PTI) has pushed into new high territory for the bull market, and it has done so with real power. This bodes well for the market in general (although the almost straight up advance seen on the chart also suggests a temporarily overbought situation.

The *Dow A-D Index* (pluralities of advances or declines in just the 30 Dow stocks) pushed to a bull market high, unconfirmed by Dow price. Thus it is clear that a few selected Dow stocks are holding back the Average, even though breadth in the Dow Averages has been good.



The *cumulative most-active stock index* has also rallied to a new bull market high, and here the inference is that accumulation has been very strong and that volume leadership on the NYSE remains bullish.

Finally, the *NYSE advance-decline ratio* has advanced over four points from its mid-October low without so much as an intervening 1 point correction. If the A-D can advance a full five points without that 1 point correction, I will state that a "buying stampede" has been underway. Therefore, it will be crucial to note during any corrective action here whether the A-D loss can be held to under 1 point.

If any forthcoming A-D ratio correction carries beyond the 1 point measurement, I would say that there will be more stall (and even downside action) than might be expected at this time. It is remarkable and mysterious, but the 1 point gauge has often "predicted" whether a decline is to remain "just a decline" or whether greater problems lie ahead for the market.

BOND FUNDS: Back to a subject which I have been harping about for almost two years. The subject is bonds and more lately the desirability of bond funds. The bond funds, and I am talking now specifically of Municipal bond funds, have solved a few problems which the average investor has had to contend with. The first is **diversification**, and obviously the typical bond fund does provide diversification by holding many different bonds. The second advantage of the bond fund is that it provides **liquidity**, in that the funds can be purchased and sold the same day. Finally, the funds (hopefully) provide judgment in that they (again hopefully) will apply their professionalism to picking a good list of bonds.

I must admit that when the new tax law allowed for the formation of the new no-load managed Municipal bond funds, I had thought the concept was a fine one. But one thing bothered me, and that was the rumor to the effect that "the public would pour into these funds like a cloud of locusts descending on a wheat field." I was frankly bothered because the public seldom takes quickly to any **good** idea, and here was this forecast of the public literally enveloping the tax-exempt field.

Then I started investigating for myself. I was flabbergasted. The money which has been taken in (so far) by the big open-end funds such as Fidelity, Dreyfus, Rowe Price, Scudder, is shockingly *small*. Fidelity, the biggest has taken in about $150 million (probably more at this writing), Dreyfus has about $50 million, Scudder and Price much less. Now mind you, these are all top outfits. It's the public that is reluctant. They're thoroughly suspicious of tax-exempts.

All of which makes me feel a lot better. It's telling me that in spite of the bullish New York Supreme Court decision (in favor of bond holders), in spite of the Municipals' free features, in spite of historically high (fastastically high) yields, the public still (1) doesn't understand the tax-free concept, (2) doesn't trust tax-exempts, and (3) doesn't see the bull market in bonds.

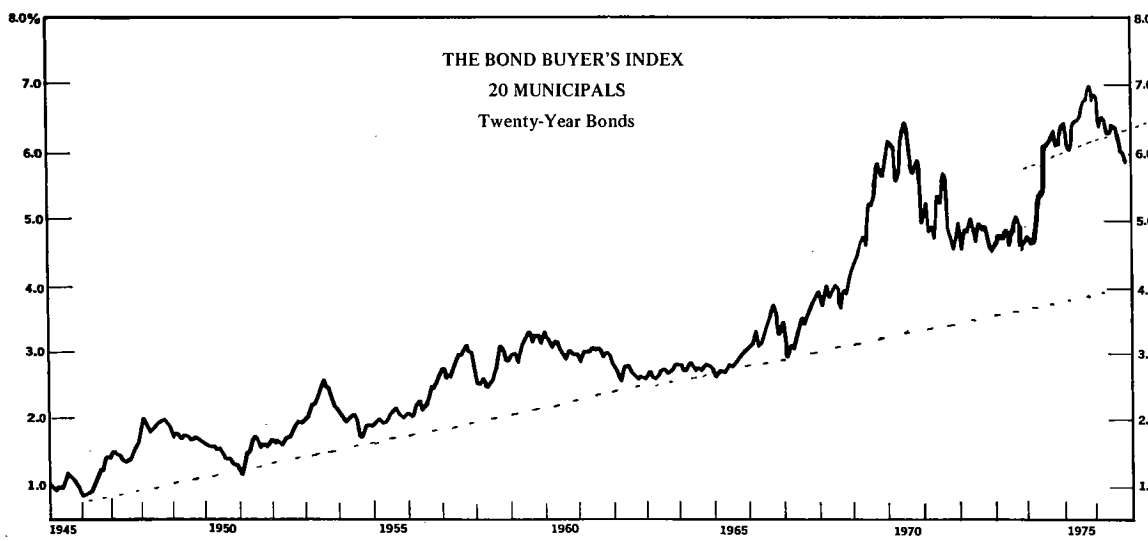
I am including a chart of the yields of the *Bond Buyer's Index of 20 Municipals* (all 20-year maturities). Note that during the last year or during the period when I have been shouting "BUY" regarding Municipal bonds, the average yields have been in the rarefied 6% to 7% zone. Now yields have dropped below the peak of 1970, below the 6% zone, and those yields are heading lower.

I have drawn a trendline which connects thirty years of rising bases, starting with the "under 1% yields" of 1945. It is my personal guess that before this bull market is over, Muni yields are going to come down and test (and perhaps penetrate) the long-term trendline. This would mean that average yields on Muni's could come down to 4% or even lower!

One new force behind the Muni picture is the rise of the Government-guaranteed bond concept. Here's how it works. The US Government loses a mountain of money when it allows a municipality (city, state, etc.) to issue a tax free bond. So the Government says, "Look, issue a regular taxable bond, but you can sell it at a reasonably low yield because we'll guarantee it. In this way, you won't have to pay out too much in interest, and we'll collect the taxes." I think this is the coming trend, and if so, it would mean that current tax-exempt bonds will command a premium, particularly, the better-rated tax-exempts.

I feel that the current yields on tax-exempt bonds are much too high in relation to other bonds, and they are probably too high because of the still-lingering fear of the NYC situation. My feeling is that tax-exempts are in the bargain zone, but that they're not going to stay there too much longer. The easiest entrance into tax-exempts is through any of the open-ended, no-load funds (such as Fidelity, Dreyfus, Rowe Price) or through a load fund (unit trust) such as the kind sold by Hutton, Merrill Lynch, Nuveen, etc.) Or you can purchase a managed fund (with load) such as Kemper or any of the new and as yet unissued colonial funds.

The differences in all these funds are subtle but they are there. For instance, when you buy a unit trust you are locking in a definite yield. These units are set and no trading occurs. When the bonds mature, you will receive your money back again. In the open ended funds, they will fluctuate in price and yield, and since new money is used to purchase additional bonds, the yield provided by the fund will drop (although the price of the fund shares should rise).



Personally, I recommend purchase of equal amount of unit trusts and no-load funds. I have not seen enough of the closed-end fund performance on the Muni's to render a decent opinion here.

Incidentally, the closed-end bond funds (listed on the NYSE and traded like any other stocks) still offer high yields and are, I feel, most attractive for those who can use straight income and where taxes are no problem. The biggest discounts now available are Drexel Bond (15% discount), Excelsior (8% disc.), INA income (8.3% disc.) and

Pacific American (9.4%disc.). Before purchasing any of these, examine the Standard & Poor tear sheets carefully, and be sure you understand the picture. Two quality funds which I like in this group are American General (which sells at a slight premium) and Standard & Poor's Inter-Capital which sells at around a 6% discount from assets. Both are very well managed.

NEW YORK: We arrive amid clear skies, 40 degree weather. A dramatic nocturnal NYC skyline glitters its greeting at us as our taxi rumbles towards the City. Once in Manhattan, traffic jams up in a black, honking mass. After a dismal experience with what's left of the St. Regis and the Gotham, we are now about to try what's left of the Hotel Stanhope. For $54 a night we get two big rooms and an ancient kitchenette. By NYC standards, it's good value and certainly well situated opposite the stately Metropolitan Museum of Art.

Thursday night:dinner at the new Tavern on the Green, NYC's latest unearthly glamor-creation. It's a pleasure dome, a millilighted electrical extravaganza. Food is fair, noise deafening, people all studying each other and dressed to the hilt. Madness in sparkle-drag.

Friday:lunch with Edson Gould and Steve Greenberg of Anametrics. Gould wise and soft spoken, Steve fully capable of carrying on four conversations at once. Restaurant of Steve's choice, Le Cygne. New word needed to describe the French food there–ultra miraculous. Next, shopping at Bloomingdale's, a store which holds as much merchandise as all the combined retail stores of a medium sized city. Friday night we dine at my sister Kate's — a gourmet family dinner. Our waistlines are beginning to expand.

Saturday:off to SoHo and NYC's latter-day art scene. Lofts are turned into giant white gallaries and studios in this art explosion of local talent and non-talent. The NYC art world has now assumed massive proportions. Prices, in general, are high and even absurd. I am all for artists eating three meals per day, but this isn't proven great art--yet. I'm reminded that Van Gogh sold only one painting in his lifetime and Manet traded his canvases for tubes of oil paint and brushes.

It's all part of the "collectible mania" which is gripping the nation. Parke Bernet galleries, we notice, is auctioning watches, porcelains, prints, portfolios, rugs, Lord knows what. So don't throw out your old clothes or your waste paper, sell it in NYC at auction. On to Saturday night and great Italian meals at Giambelli. Olive oil and Richard Russell could never get together peacefully, but the meal was worth the Alka Seltzer chaser.

Sunday:the Metropolitan and the Andrew Wyeth exhibit (I'm not a Wyeth fan). Also, we saw the amazing Russian costume show. The crowds were extraordinary, and we had to peer over shoulders and under arms. NYC denizens may not see grass and flowers, but they see art by the carload, and they love it. Night and we're bound for Sun Hop Kee, a hole in the wall at 13 Mott Street in Chinatown. This place is not built for beauty, it is built for heavy, serious eating, and it produces some of the outstanding culinary experiences of the Western World. At any price, Sun Hop Kee is great value, but at the low prices charged here it is a 20th Century bargain.

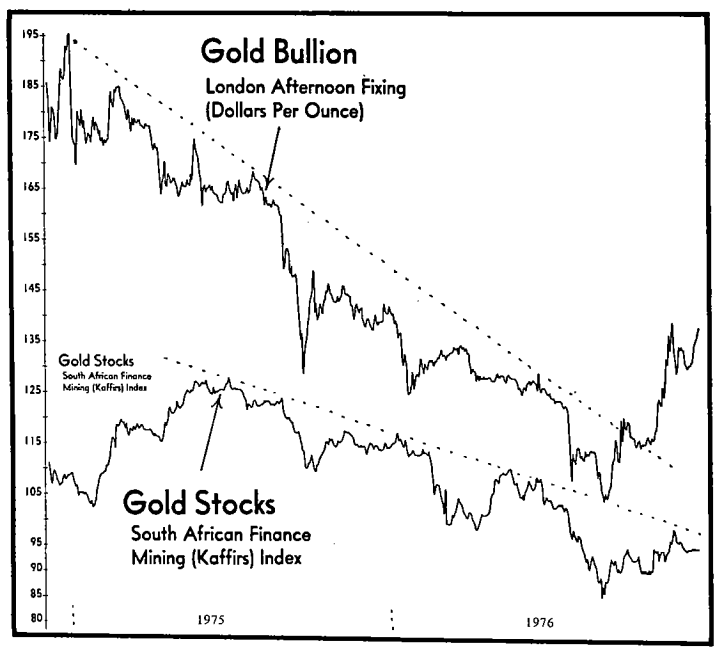
Monday, and I freeze (it's 17 degrees) as I head towards the Plaza and the *Barron's* conference. Editor Bob Bleiberg (whom I haven't seen in 16 years) is there. We recognize each other immediately, which makes us both feel good. Mr. B took a chance on me and the Dow Theory in 1958 at a time when technical analysis was a forbidden word and when the Dow Theory was an almost unknown (or should I say forgotten) body of knowledge. For that reason I have always considered that *Barron's* and Bob Bleiberg were largely responsible for today's widespread use of technical analysis throughout the market.

With Bleiberg is his *Barron's* brain-trust of Alan Abelson, Larry Armour and Peter DuBois. They are going to question and draw out seven of the super-brains of Wall Street. I'm the eighth man on the panel, and the only Californian. I conclude that I must be there to bolster the feelings of *Barron's* Western readers. The questions and talks go on for a solid five hours, and I am most impressed with what I hear. At 7pm it ends, and we are eating an absolutely great dinner at the Plaza. My belt is groaning again, but I tell myself that tomorrow it's back to San Diego and those early morning jogs on the beach.

I note that...subway is now wh–50 cents. What happened to the nickel ride!.....the feeling around NYC is actually better than last year. Maybe the bull market psychology is beginning to rub off on Gotham.....Both elevators break down at the Stanhope, a NYC-type disaster.....Look at all the tiny dogs on the streets, everybody has a toy poodle or a toy something else, and I wonder if my Mastiffs would know they were even dogs.... The Christmas crowds are huge, and I am getting clastrophobic. I used to try to filter the "big crush" out, but it always depressed me and still does.....I notice that the buildings and streets of NYC are cracking and buckling. Were they always like that, or is the place crumbling before our eyes and nobody sees it. NYC, land of the psychic-filter.

I try to re-love the City, I try to be fair, I try to be accepting—but I can't. It's decaying, it's strewn with garbage; the City's eyes stare with dull lust. It's mouth is caked with the spoils of greed. The be-furred women stare at each other in Gucci's and the salespeople affect a tired hauteur. Tuesday, as we push into a frostbitten Fifth Avenue crowd, I start counting the hours until we leave. At 6pm it's happening, and the plane lurches into the sky headed due West. I amuse myself by asking, if California didn't exist, where would I live? I torture myself with that idle question, and I come up with Arizona or perhaps New Mexico. At 9pm the plane lands, and we step into a balmy 65 degree San Diego breeze. I take a deep clean breath....

GOLD: I've always held that one good chart can cut through a thousand sentences of gobble-de-gook. This may be just such a chart. What we see here is a clear division in thinking regarding gold and gold shares. I have drawn two descending trendlines on the M/G Financial chart, and it is obvious that gold-believers have been buying the bullion while forsaking the S.African shares. The reasons should be clear enough (I've been talking about it for over a year). The reason is that S.Africa can no longer be considered a place for investment money.



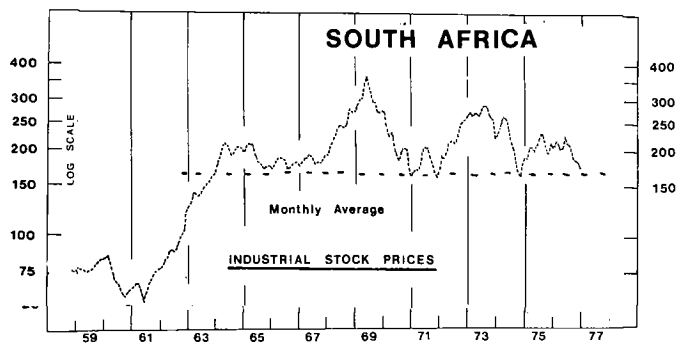
U.N. Supports Armed Struggle In Africa

NEW YORK (AP) — The U.N. General Assembly adopted a resolution yesterday that for the first time declares that the assembly upholds armed struggle as a means of throwing off colonial rule.

Passed by a vote of 107-6 with 12 abstentions, the resolution states that the assembly "supports the armed struggle of the Namibian people, led by the South-West African People's Organization (SWAPO), to achieve self-determination, freedom and national independence in a united Namibia." South-West Africa (called Namibia by black liberation groups) is controlled by South Africa.

This morning I cut this clip out of the LA Times. It may not sound like much, but to me it is telling us plenty. The UN is now saying to blacks in South-West Africa, "If you want to fight, you have the moral backing of the UN behind you!" *Harry Schultz's* report came in this morning, and I note that Harry thinks the S. African gold shares are perhaps speculative buys but not investments. "At the moment, S. Africa never looked worse," writes Harry, but in another spot he thinks that real trouble could be held five or ten years or even longer.

What interests me is something almost no one is aware of. That is the situation with the S. African **Industrial** (not gold) Average. This Average rallied above 150 in 1963 and has held above 150 ever since. The 150 level has been tested on five different occasions, the current instance being the latest. What would it mean if 150 were now broken? I can only say that it would not be good for any investments in S. Africa, gold or otherwise. The formation on the chart, by the way, should be clear to all chartists.



There may be some who will say, "Russell, what the hell are you trying to do, set off a fire alarm!" My answer is that I don't make the charts, and I don't manipulate hundreds of S. African stock prices or any other stock prices. I call 'em as I see them, and I consider that's my duty to my subscribers. I've stayed in business 18 years by giving my subscribers what I consider (to the best of my ability and intuition) to be the truth. That's all I sell. Personally, I hope S. Africa holds together and that everything can be settled peacefully the way the black-white conflicts have (in general) been settled in this country. But that doesn't mean I'm going to pretend that the S. African Industrial Average looks "like a million." It just doesn't.

(Chart of So. African Average courtesy of International Bank Credit Analyst, 1245 Sherbrooke St. W., Montreal 109, Can.).

NOTES AND QUOTES: If you are a typical family, a Detroit Bank & Trust study shows this: you have two kids, you make $15,848 a year, you are buying your own home, and you own a car and several appliances. You have $50 in cash, $250 in a checking account, $1500 in a savings account and $300 in US Gov. bonds. You're worth about $38,000 as follows: $24,000 in home equity (house will be paid off in 27 years), $33,000 in life insurance and you have about $6,500 worth of personal property. So that's about the picture for lower-middle class America—a house, lots of junk and not too much cash—and running pretty fast to stand still.

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W. B. Stanley of Drexel Burnham writes to tell me that my fears about Carter being a flaming liberal were unfounded. He believes (and I suspect he is correct) that Carter is going to turn out to be some kind of economic conservative. Then Mr. Stanley (in view of my last Letter's raging against euphemisms, kids me by saying, "Russell, I think your **input** in your political **system** lacks the **community** of thought that produces the **bottom line** result one could expect from **conventional wisdom**." Now how's that for a sentence full of "non-speak" and gibberish!

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I love language and words and here are some interesting statistics. The English language contains over 600,000 words. A well-educated person knows maybe 20,000 of them. But in spoken English, fewer than 2,000 words account for 99% of what we say, and only 10 words (with **I** first and **you** second) make up roughly 25% of what we say. And that doesn't include the very common non-words like **uh huh, eh**, etc.

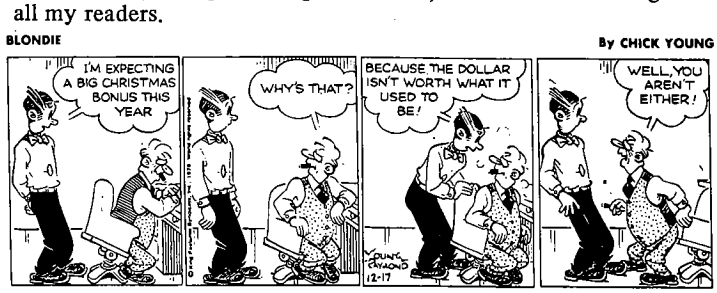
LATE NOTES: After dropping 6.65 (on the Dow) yesterday, the market is now rallying. The end of the year action is often confusing, and this year with the new tax situation it will be even more confusing. Odd lot statistics will be largely useless because of seasonal influences, and odd lotters usually switch heavily toward buying during the first ten days of the new year because of reinvestment of funds and dividends.

The **consensus** is that the market will plow up and form some kind of big top during early 1977, probably with the Dow at a new high. I'm not at all convinced. I think we could get some more "problems" with the Dow, perhaps a continuation of the trading range well into 1977. It would not even surprise me to see one more scary sell-off, but somewhere along the line ***the primary bull trend is going to take hold.*** When that happens (possibly as late as the second or third quarter of '77) I believe we're going to see a big primary sweep ***up***.

One interesting observation: a great number of **secondary** stocks are still on the bargain counter with interest now slowly sifting into them. Many have very high yields and low P/E's. The Amex has been quiet, but I have a feeling (and I can back it up with charts) that things may be ready to stir there (I'll go into that in the next report). Our motto for the rest of the year and 1977 should be "The bull still lives!"

STOCKS: Glancing over past recommendations going back to June, the following stocks still look interesting to me: ***Sun Co.*** (Letter 666), ***Viacom*** (Letter 668), ***Amerada Hess*** (Letters 678, 679), ***Address-Multi*** (recommended repeatedly, including Letter 683); two utilities have just been added to the list of relative strength reversals to the upside, ***Middle South*** and ***Pacific Gas & Electric. Tyco*** (Letter 682) appears to be forming a huge base, and 20 is the target number which would push it out of its base. The company is loaded with cash and has been buying up other companies. But unlike so many other conflomerates, TYC seems to know what it is doing and how to do it. It has been buying up shares of Leeds & Northrup.

Dagwood's boss may have the perfect answer to inflation. At any rate, I got a good laugh out of it, so Season's Greetings to all my readers.


BLONDIE
By CHICK YOUNG
I'M EXPECTING A BIG CHRISTMAS BONUS THIS YEAR
WHY'S THAT?
BECAUSE THE DOLLAR ISN'T WORTH WHAT IT USED TO BE!
WELL, YOU AREN'T EITHER!

NEXT MAILING: January 5th